LEGISLATIVE FISCAL OFFICE
Fiscal Note

Louisiana Legislative Fiscal Office Fiscal Notes

Fiscal Note On: **SB 1** SLS 202ES 49

Bill Text Version: **ENROLLED**

Opp. Chamb. Action:

Proposed Amd.:

Sub. Bill For.:

Date: October 20, 2020 12:50 PM

Author: WARD

Dept./Agy.: Revenue

Subject: Inventory Tax Credit - Extend Carryforward Period

Analyst: Benjamin Vincent

TAX/AD VALOREM EN DECREASE GF RV See Note

Extends the carryforward period for the inventory tax credit for certain businesses. (1/1/21) (Items #26 and #65)

Current law provides a state tax credit against income and franchise taxes for ad valorem taxes paid to local governments on inventory held by manufacturers, distributors, retailers, and on natural gas used in storage facilities. The credit is refundable or nonrefundable depending on various factors applicable to each taxpayer. To the extent a portion of the credit is nonrefundable, a taxpayer has a five-year carryforward period within which to utilize unused credit amounts against tax liabilities.

Proposed law changes the carryforward period from five years to ten years.

Effective January 1, 2021.

EXPENDITURES	2020-21	2021-22	2022-23	2023-24	2024-25	5 -YEAR TOTAL
State Gen. Fd.	$0	$0	$0	$0	$0	**$0**
Agy. Self-Gen.	$0	$0	$0	$0	$0	**$0**
Ded./Other	$0	$0	$0	$0	$0	**$0**
Federal Funds	$0	$0	$0	$0	$0	**$0**
Local Funds	$0	$0	$0	$0	$0	**$0**
Annual Total	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**

REVENUES	2020-21	2021-22	2022-23	2023-24	2024-25	5 -YEAR TOTAL
State Gen. Fd.	DECREASE	DECREASE	DECREASE	DECREASE	DECREASE	
Agy. Self-Gen.	$0	$0	$0	$0	$0	**$0**
Ded./Other	$0	$0	$0	$0	$0	**$0**
Federal Funds	$0	$0	$0	$0	$0	**$0**
Local Funds	$0	$0	$0	$0	$0	**$0**
Annual Total						

EXPENDITURE EXPLANATION

The Department estimates approximately $65,000 of programming, testing, and system development IT staff time costs to be able to distinguish credits that still have the five-year carryforward limitation associated with them from credits subject to the new ten-year carryforward provision of this bill.

REVENUE EXPLANATION

The bill extends the allowed time to apply tax credits against liabilities rather than have unused credit amounts expire. This can only work to reduce annual net tax collections from what they would otherwise be. The effectiveness of the bill, January 1, 2021, seems to imply that the first fiscal year of revenue loss exposure could be FY21, for income tax returns filed in the spring of 2021 and franchise which is due at the start of the year and payable by May of the year.

An estimate of the potential revenue loss is not possible. The Dept. of Revenue does not have data on the amount of credit across taxpayers that is available for carryforward use, nor any schedule of how much might be expiring in any particular year that this bill would keep available for use.

Over the life of the inventory credit through FY14, and in the aggregate, firms claiming the credit have never had sufficient tax liabilities to exhaust the amount of credit available only through offsetting those liabilities. Consequently, refunds of excess credit were made of typically 82% of the credit, with 18% offsetting tax liabilities. Changes made to the credit in 2015 and 2016 have reduced the total annual cost of the credit by some 31%; from approximately $388 million per year before 2015, to approximately $267 million per year after 2015, as well as constrained the refundability of excess credit amounts. Current information indicates that of the lower total credit amounts in recent periods, refunds of excess credit are about 40% of the total credit, with 60% offsetting tax liabilities. While flipped from the earlier periods of the credit, the data still suggests that tax liabilities are not sufficient to exhaust the amount of credit available through offsetting tax liabilities.

While the bill can only work to to decrease revenue by allowing some taxpayers to claim, against tax liabilities, credits that would have otherwise expired, it still does not seem likely that the extension of the carryfoward time limit would significantly increase the amount of credit possible to claim in the aggregate each year.

Senate Dual Referral Rules

- [ ] 13.5.1 >= $100,000 Annual Fiscal Cost {S & H}
- [x] 13.5.2 >= $500,000 Annual Tax or Fee Change {S & H}

House

- [ ] 6.8(F)(1) >= $100,000 SGF Fiscal Cost {H & S}
- [ ] 6.8(G) >= $500,000 Tax or Fee Increase or a Net Fee Decrease {S}

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